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WPF report lays out child care funding options

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A new report from the Wisconsin Policy Forum lays out options for putting additional funding into child care affordability, from new taxes to cost-sharing arrangements and more.

Most avenues for this support are at the state level, as local governments are relatively limited in their ability to raise additional revenue, the report shows.

Increasing the amount of the state's general purpose revenue going to child care "may be an attractive option" due to the flexibility of this funding, authors wrote. But they add Wisconsin's ability to sustain that funding would depend on its fiscal position and policies around child care, as well as "tradeoffs" with other state priorities.

Wisconsin's 2025-27 biennial budget established the "Get Kids Ready" initiative with a $65 million annual appropriation from the state's general fund, the report notes. The program will begin issuing payments to participating child care providers in July.

The report also weighs the merits of creating new state-level funding streams to pay for child care support, including dedicated tax revenue and trust funds. While a number of other states are enacting new taxes for this purpose, authors note lawmakers can "face an uphill battle" with voters to do so.

New revenue streams dedicated to child care are appealing to advocates in part because they aren't subject to the same amount of budget negotiations as general funds, WPF says. But that "may be a con rather than a pro" for lawmakers themselves as they have less control unless they change tax rates, per the report.

Authors say new taxes may be accepted more readily if they finance new opportunities or services. The report suggests Wisconsin could dedicate new sales tax revenue from legalizing marijuana or sports betting to child care, for example.

Meanwhile, WPF points to tax incentives and cost-sharing programs as alternatives, noting they're becoming more popular elsewhere but offer less of an impact than direct taxes or set-aside trust funds.

Possible tax incentives could include: an income tax credit for employers based on qualifying expenses such as supporting child care facilities; a tax credit for businesses or households based on donations to child care providers; and a child and dependent care income tax credit.

Authors raise the question of whether any new tax credits for employers would be available to those who pay taxes on their business profits through the corporate income tax or individual income tax, as well as if they would be refundable.

"A refundable credit would get used more widely since it is paid to taxpayers with and without any tax liability, but for that reason it also would cost the state more," they wrote.

See the report.